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CIVILIAN PERSONNEL
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The Federal Flexible Spending Account Program – FSAFEDS

Mark Your Calendars!

Open Season 2007

November 13 - December 11, 2006

Remember, you must enroll each year to participate.

What is an FSA? It is a tax-favored benefit that allows you to set aside pre-tax money from your paychecks to pay for a variety of eligible expenses. By using an FSA, you can reduce your taxes while paying for services you would have to pay for anyway, producing a discount that can be over 40%.

There are two types of FSAs offered by FSAFEDS:

Health Care Flexible Spending Account (HCFSA)

- Covers eligible health care expenses not reimbursed by your FEHB Plan, or any other medical, dental, or vision care plan you or your dependents may have.
- Eligible dependents for this account include anyone you claim on your Federal Income Tax return as a qualified dependent under the U.S. Internal Revenue Service (IRS) definition and/or with whom you jointly file your Federal Income Tax Return, even if you don't have self and family health benefits coverage. Note: The IRS has a broader definition of a "family member" than is used under the FEHB Program to provide benefits by your FEHB Plan.
- The maximum annual amount that can be allotted for the HCFSA is $5,000. Note: The Federal workforce includes a number of employees married to each other. If each spouse/employee is eligible for FEHB coverage, both may enroll for a HCFSA up to the maximum of $5,000 each ($10,000 total). Both are covered under each other's HCFSA. The minimum annual amount is $250.

Dependent Care Flexible Spending Account (DCFSA)

- Covers eligible dependent care expenses incurred so you, or your spouse, if married, can work, look for work, or attend school full-time.
- Qualifying dependents for this account include your dependent children under age 13, or any person of any age whom you claim as a dependent on your Federal Income Tax return (and who is mentally or physically incapable of self care).
- The maximum annual amount that can be allotted for the DCFSA is $5,000. The minimum annual amount is $250. Note: The IRS limits contributions to a DCFSA. For single taxpayers and taxpayers filing a joint return, the maximum is $5,000 per year. For taxpayers who file their taxes separately with a spouse, the maximum is $2,500 per year. The limit includes any child care subsidy you may receive.

Enroll during Open Season. You **must make an election** to enroll in an FSA during the 2007 FEHB Open Season. ***Even if you were enrolled during 2006, you must make a new election to continue participating in 2007. Enrollment is easy!***

- Online: visit **www.FSAFEDS.com** and click on **Enroll**
- Telephone: call an FSAFEDS Benefits Counselor toll-free at 1-877-FSAFEDS (372-3337), Monday through Friday, from 9 a.m. until 9 p.m., Eastern time. TTY: 1-800-952-0450.

What is SHPS? SHPS is a Third Party Administrator hired by OPM to manage the FSAFEDS program. SHPS is the largest FSA administrator in the nation and is responsible for the enrollment, claims processing, customer service, and day-to-day operations of FSAFEDS.

Who is eligible to enroll? If you are a Federal employee eligible for FEHB – even if you're not enrolled in FEHB – you can choose to participate in either, or both, of the FSAs. *However, if you enroll in a High Deductible Health Plan (HDHP) with a Health Savings Account (HSA), you are not eligible to participate in a HCFSA.*

Almost all Federal employees are eligible to enroll for a DCFSA. The only exception is intermittent (also called "when actually employed" [WAE]) employees expected to work fewer than 180 days during the year.

Note: FSAFEDS is the FSA Program established for all Executive Branch and Legislative Branch employees whose employers have signed on to participate. Under IRS law, FSAs are not available to annuitants. Also, the U.S. Postal Service and the Judicial Branch, among others, have their own plans with slightly different rules. However, the advantages of an FSA are identical regardless of the agency for which you work.

How much should I contribute to my FSA? Plan carefully when deciding how much to contribute to an FSA. Because of the tax benefits an FSA provides, the IRS places strict guidelines on how the money can be used. Under current IRS tax rules, you are required to forfeit any money for which you did not incur an eligible expense under your FSA account(s) during the Plan Year. This is known as the "Use-it-or-Lose-it" rule. You will have until May 31 following the end of the Plan Year to **submit claims** for your eligible expenses incurred from January 1 through December 31. For example, if you enrolled in FSAFEDS for the 2006 Plan Year, you will have until May 31, 2007 to submit claims for eligible expenses.

If I didn't use all the money allotted to my FSA during the year, can I get the money refunded to me? No. Participants have until March 15 of the following year to **incur** eligible expenses and money remaining in your account after that date will be forfeited. **You will forfeit any money not claimed by May 31 of the following year**. This is the major reason employees need to be conservative in their estimate of how much money to allocate to an FSA.

The **FSAFEDS Calculator** at **www.FSAFEDS.com** will help you plan your FSA allotments and provide an estimate of your tax savings based on your individual situation.

What can my HCFSA pay for? Every FEHB Plan includes cost sharing features, such as deductibles you must meet before the Plan provides benefits, coinsurance or copayments that you pay when you and the Plan share costs, and medical services and supplies that are not covered by the Plan and for which you must pay. Your HCFSA will reimburse you when those costs are for medical care that you, your spouse and/or your dependents receive that is NOT covered or reimbursed by your FEHB Plan or any other coverage that you have.

The IRS governs expenses reimbursable by a HCFSA. See Publication 502 for a comprehensive list of tax-deductible medical expenses. *Note:* **While you will see insurance premiums listed in Publication 502, they are NOT a reimbursable expense for FSA purposes.** Publication 502 can be found on the IRS Web site at

www.irs.gov/pub/irs-pdf/p502.pdf. The FSAFEDS web site also has a comprehensive list of eligible expenses at **www.FSAFEDS.com/fsafeds/eligibleexpenses.asp**. If you do not see your service or expense listed please call an FSAFEDS Benefits Counselor at 1-877-FSAFEDS (372-3337), who will be able to answer your specific questions.

Tax savings with an FSA. An FSA allows you to allot money for eligible expenses **before** your agency deducts taxes from your paycheck. This means the amount of income that your taxes are based on will be lower, so your tax liability will be less. Without an FSA, you would still pay for these expenses, but you would do so using money remaining in your paycheck after Federal (and often state and local) taxes are deducted. The following chart illustrates a typical tax savings example:

Annual Tax Savings Example	**With FSA**	**Without FSA**
If your taxable income is:	$50,000	$50,000
And you deposit this amount into an FSA:	$2,000	-$0-
Your taxable income is now:	$48,000	$50,000
Subtract Federal & Social Security taxes:	$13,807	$14,383
If you spend after-tax dollars for expenses:	-$0-	$2,000
Your real spendable income is:	$34,193	$33,617
Your tax savings:	**$576**	**-$0-**

Note: This example is intended to demonstrate a typical tax savings based on 27% Federal and 7.65% FICA taxes. Actual savings will vary based upon the retirement system in which you are enrolled (CSRS or FERS), your state of residence, and your individual tax situation. In this example, the individual received $2,000 in services for $1,424 - a discount of almost 36%. You may also wish to consult a tax professional for more information on the tax implications of an FSA.

Tax credits and deductions. You *cannot* claim expenses on your Federal Income Tax return if you receive reimbursement for them from your HCFSA or DCFSA. Below are some guidelines that may help you decide whether to participate in FSAFEDS.

Health care expenses. The HCFSA is Federal Income tax-free from the first dollar. In addition, you may be reimbursed from the

HCFSA at any time during the year for expenses up to the annual amount you've elected to contribute.

Only health care expenses exceeding 7.5% of your adjusted gross income are eligible to be deducted on your Federal Income Tax return. Using the example listed above, only health care expenses exceeding $3,750 (7.5% of $50,000) would be eligible to be deducted on your Federal Income Tax return. In addition, money set aside through an HCFSA is also exempt from FICA taxes. This exemption is not available on your Federal Income Tax return.

Paperless Reimbursement – Some health plans participate in the FSAFEDS paperless reimbursement program. When you enroll for your HCFSA, you may have the opportunity to enroll for paperless reimbursement. If you do, your Plan will send FSAFEDS the information they need to reimburse you for your out-of-pocket costs so you can avoid filing paper claims.

Dependent care expenses. The DCFSA generally allows many families to save more than they would with the Federal Tax Credit for dependent care expenses. Note that you may only be reimbursed from the DCFSA up to your current account balance. If you file a claim for more than your current balance, it will be held until additional payroll allotments have been added to your account.

Visit **www.FSAFEDS.com** and download the **Dependent Care Tax Credit Worksheet** from the Forms and Literature page to help you determine what is best for your situation. You may also wish to consult a tax professional for more details.

Does it cost me anything to participate in FSAFEDS? No. Section 1127 of The National Defense Authorization Act (Public Law 108-136, enacted November 24, 2003) requires agencies that offer FSAFEDS to employees to cover the administrative fee(s) on behalf of their employees. However, remember that participating in FSAFEDS can cost you money if you don't spend your entire account balance by the end of the Plan Year, resulting in the forfeiture of funds remaining in your account (the IRS "use-it-or-lose-it" rule).

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